HMRC: Institute challenges unfair interest rules

Briefings



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CIOT is calling on the government to address unfair tax rules as interest rates on late payments rise.

The interest rate on late payment of tax is due to increase by a further 1.5% in April, to the Bank of England base rate plus 4%. If HMRC fails to make tax repayments on time, or makes errors leading to taxpayer refunds, it pays interest at the base rate minus 1%.

Richard Wild, CIOT's Head of Tax Technical, said: 'We are calling on the government to consult on the rate and approach to repayment interest on overpaid tax. It is vital to ensure that repayment interest provides adequate and fair recompense for the loss of the use of the monies by the business or individual concerned, and an adequate incentive for HMRC to process repayments in a timely fashion.'

The CIOT is also urging the government to re-introduce rules which enable HMRC to waive interest on underpaid VAT when no actual tax loss to the Exchequer occurs.

This power was omitted from the new VAT interest regime which came into effect for VAT return periods starting on or after 1 January 2023. The exposure to interest where there is no tax loss is due to the unique operation of the VAT regime.